IDAHO EMPLOYMENT

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1990s MINIMUM WAGE HIKE, MINIMUM IMPACT

With the issue before both Congress and the Idaho Legislature, questions have arisen about the effect raising the minimum wage will have on the economy, particularly its impact on jobs at the lower end of the wage scale.

Figures from the U.S. Bureau of Labor Statistics show job growth nationally in retail trade, tourism, hotels, motels and restaurants generally slowing in 1997, when the last minimum wage increase was implemented — and even into 1998 in some sectors.

But the Federal Reserve Board, in its periodic assessments of the national and regional economies in what it calls the Beige Book, suggested the slowing was the result of labor shortages rather than overly expensive labor.

In Idaho, some weakness occurred in certain sectors in the quarters right after the minimum wage went up, especially among smaller businesses, but others showed continued strong growth unimpeded by the two-step increase of 90 cents to $5.15 an hour in late summer 1997.

The federal version of the minimum wage applies to the vast majority of Idaho's workers, who number 730,000 today. It went up 50 cents, nearly 12 percent, from $4.25 to $4.75 an hour on Oct. 1, 1996, and then another 40 cents, or 8.4 percent, on Sept. 1, 1997. The Idaho Legislature followed at the state level but with a delay in the first phase, which did not take effect until April 1, 1997. The second step of the increase in the state minimum wage

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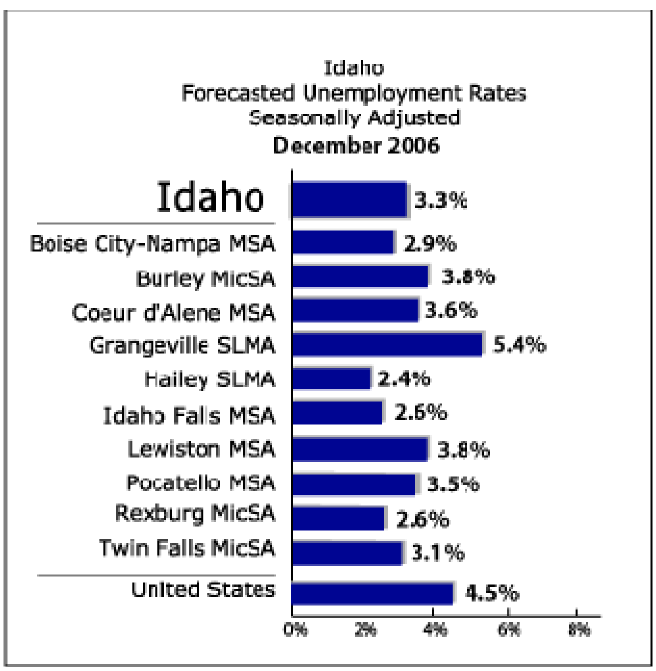


The State Overview for December 2005 data, economic indicators and non-farm job data will be published in the next issue of Idaho Employment.

coincided with the increase in the federal minimum. Only a small percentage of Idaho workers — generally those employed by companies that gross less than $500,000 and are not engaged in interstate commerce — are exempt from the federal minimum wage and rely on the state minimum wage law for coverage.

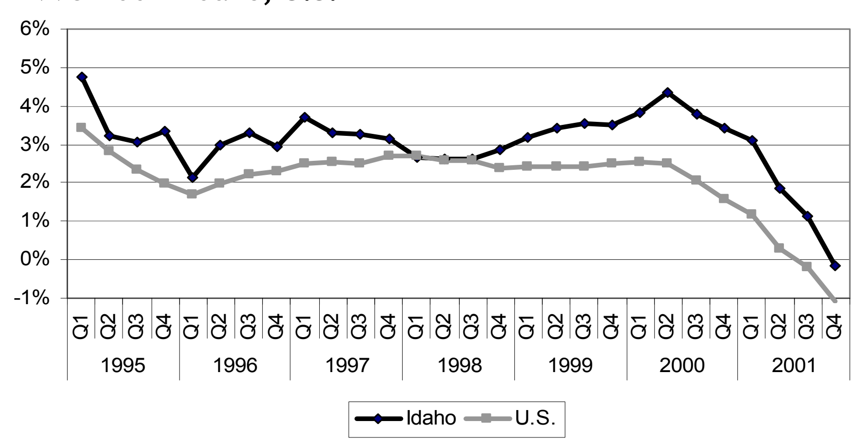
Today, Congress is considering the first minimum wage increase since then. It would raise the minimum 70 cents to $5.85 an hour, or 13.6 percent, 60 days after the bill is enacted — probably sometime this spring or summer. The wage goes up another 70 cents an hour, or 12 percent, to $6.55 a year later and another 70 cents, or 10.6 percent, to $7.25 a year after that.

The state Legislature is considering a bill that would mirror the federal plan.

The minimum wage increase in the 1990s appeared to have little impact on the overall Idaho economy.

Total nonfarm employment grew at a faster pace than nationally in every quarter of 1995, 1996 and 1997 before simply matching the national rate for the first three quarters of 1998 and then resuming its higher growth rate all the way into the national recession.

Chart 1: Quarterly Nonfarm Job Growth, 1995-2001—Idaho, U.S.



Job growth in the trade sector exceeded the national rate except for the final quarter of 1997 and the first quarter of 1998 while the service sector posted underperforming quarters in summer 1996, winter 1997 and winter and spring 1998. These sectors tend to have more of the lower paying jobs than others, and the minimum wage increases were on Oct. 1, 1996, and Sept. 1, 1997.

A 2005 analysis of wage rates in Idaho estimated 32,000 jobs paying between $5.15 and $6.15 an hour. Over 19,000 of those jobs, more than 60 percent, were estimated to be in retail trade, accommodations and food service.

The Federal Reserve's first economic analysis after the initial wage hike in 1996, issued in January 1997, found that many retailers around the nation "note their only concern is finding seasonal employees."

Two months later the nation's central bank found the economy across the nation expanding at a relatively moderate rate and "tight labor markets still dominate in almost all parts of the country." Despite that, the Federal Reserve found no significant upward pressure

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on wages although employers were beginning to offer other incentives such as store discounts and better benefits.

Then just after Thanksgiving, three months after the second phase of the minimum wage increase hit, the fed found economic growth continuing at a moderate pace. But while labor shortages had intensified in key sectors, there were only infrequent reports of pressure on wages.

"Retailers in almost all districts are having particular trouble hiring and retaining workers for the busy holiday season," the report said.

While Idaho's overall economy was not obviously affected by any phase of the 1990s minimum wage increase, smaller retail trade, hotel and restaurant businesses — those with fewer than 50 workers — did record slower growth in terms of establishments and payroll. But that could be attributed to workers in those typically lower-paying sectors getting the opportunity presented by a tight labor market to move into better jobs in other sectors where competition for workers was intensifying.

"Generally positive views of the economy were tempered by many reports of tight labor markets and increasing wage pressures," the Federal Reserve said in its March 1996 analysis of the economy for its district that includes Idaho. "High turnover rates, reflecting frequent 'job-hopping,' were noted."

Employment growth in smaller businesses of all stripes was slowing throughout the mid-to-late 1990s as some of the more successful enterprises expanded and moved above 50 employees. The labor crunch was also making it difficult for smaller businesses, often with less competitive benefit packages, to attract new employees.

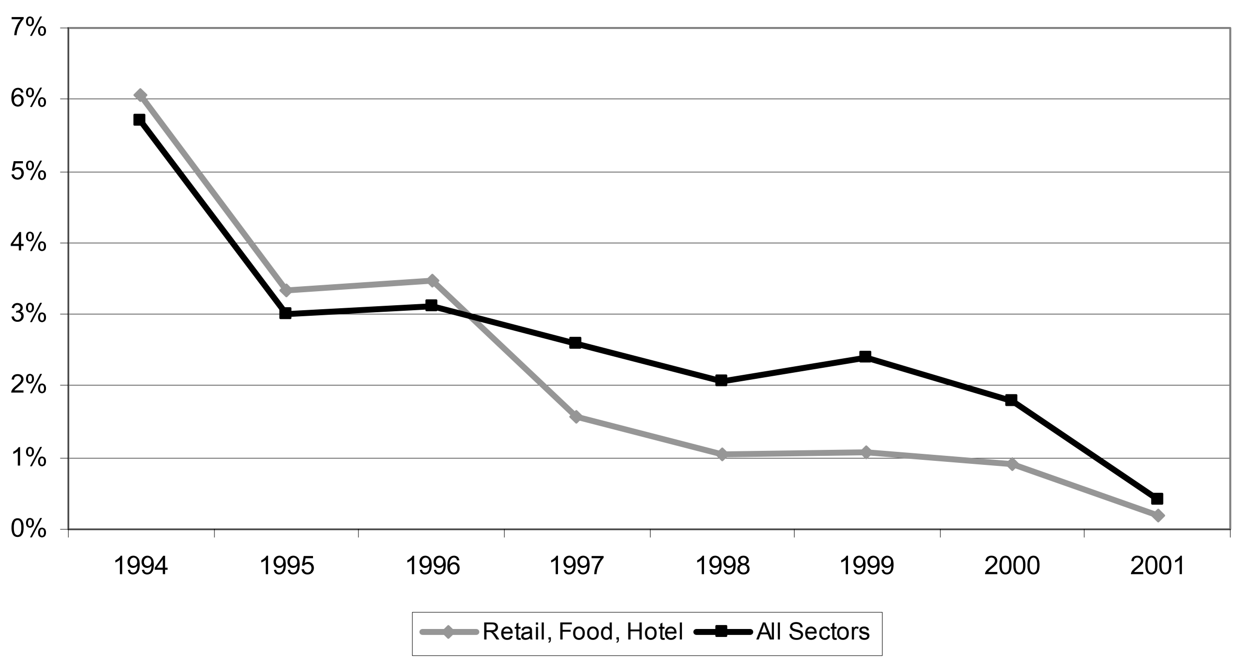
By October 1997, the Federal Reserve said the region that includes Idaho had "shortages of both skilled labor and entry-level workers."

"Labor shortages reportedly have intensified in recent weeks," the Federal Reserve reported then. "Even when significantly higher wage offers accompany signing bonuses and other benefits, some advertised positions either go unfilled or are filled by workers who lack the desired training."

During the two quarters after the initial hike in the minimum wage in 1996, the smaller businesses in retail, accommodations and food service increased average employment by 2.1 percent over the same two quarters a year earlier. That was a full percentage point below the growth for those sectors overall and over a point and a half lower than all businesses in Idaho.

A year later, following the second phase of the increase to $5.15 an hour, that same group of small retail, food service and accommodations business saw employment essentially stagnate. Growth was just 0.7

Chart 2: Employment Growth of Idaho Businesses With Fewer than 50 Workers, 1994-2001



percent over the same two quarters a year earlier. Those sectors overall grew another 2.4 percent while employment economy-wide was up 3.6 percent.

The following fall of 1998 and winter of 1999, the small operators in retail, accommodations and food service more than doubled job growth to 1.5 percent. But the general slowdown in employment growth for those businesses that began well before the increase in the minimum wage continued well after it until the national recession began taking its hold on the Idaho economy in 2001.

Employment throughout the Idaho economy continued growing at over 3 percent in the final years leading up to the downturn, while the retail, food service and accommodations sector overall grew at an average rate of nearly 3 percent.

But even during those final years of the 1990s, economists emphasized that much of Idaho's job growth was concentrated in its two major metropolitan areas — Kootenai and Ada-Canyon counties — leaving rural communities struggling economically years before the national recession actually occurred.

The significant difference between the late 1990s and today's economy is the unemployment rate.

A rate that never dropped below 5 percent until 1999 and over 4.5 percent into the national recession is now at 3.3 percent and likely in the near future will stay well below the 4 percent economists call full employment.

Pressuring the labor market to keep unemployment low is Idaho's aging work force. In 1997, just 30 percent of Idaho workers were 45 or older. Last year, nearly 38 percent of the people working in Idaho were at least 45.

That extremely tight labor market and the shortages of specific skills in various parts of the state have been pushing wages higher for the past two years.

Idaho's average weekly manufacturing wage has jumped 28 percent since the national recession and rose over 16 percent in 2006 alone, according to the U.S. Bureau of Labor Statistics. That kind of wage pressure is a major cause of the hiring problems many small retail and other businesses are having and for the increases those employers have had to offer in wages to keep and attract workers.

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